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SENSITIVE
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DEPARTMENT FOR EEB/ESC TOM HAMMANG, EEB/TFS CHRIS
BACKEMEYER, AND NEA/IR RAJEEV WADHWANI

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SUBJECT: REVIEW OF TPAO INVESTMENT UNDER IRAN SANCTIONS ACT

REF: STATE 121808

¶1. (U) Post delivered reftel demarche to Turkish Petroleum Company (TPAO) General Manager Mehmet Uysal on December 13.

¶2. (SBU) In November 2008, the GOT Ministry of Energy and Natural Resources (MENR) signed a one-year memorandum of understanding on energy with Iran. The MOU provides for TPAO to develop South Pars gas blocks with capacity of 35 billion cubic meters (bcm) per year, half intended for the Turkish market and half for export to Europe. According to Uysal, TPAO is not a party to the MOU, nor has it signed any agreements with the Iranians directly. Rather, as a state company, it has been directed to prepare a technical report to MENR on the economic and technical feasibility of developing South Pars gas fields, as called for in the MOU. Despite 11 months of negotiations, TPAO was unable to reach any agreement with the Iranians on the terms under which it could develop blocks in South Pars. In October 2009, MENR agreed to extend the MOU by three months, to mid-February 2010, and Uysal said TPAO is continuing the talks at the GOT's request. Thus far, they have agreed to swap blocks 22, 23 and 24 on the periphery of the South Pars field for two more centrally located blocks, which Uysal said would have much higher gas potential. But negotiations continue on which two central blocks those will be and the terms of their development. If TPAO reaches agreement on terms of development, it will be up to MENR to decide if the project will go forward, Uysal said that MENR - not TPAO - would have to finance the project. The two blocks would likely cost USD 7-8 billion to develop (he said his previous USD 12 billion estimate was too high). This is far beyond TPAO's financial capabilities, and "in any case, we are not a party to the agreement, so TPAO would look to the Ministry to finance it."

¶3. (SBU) Answers to specific questions in reftel follow below:

Name of Project: South Pars

Type of Activity: Technical and economic feasibility study of exploration and production

Current Status of Project: Terms of development under negotiation

Structure of any signed contract: The GOT Ministry of Energy and Natural Resources signed a one-year energy MOU with Iran in November 2008, which provided for TPAO to develop South Pars gas blocks. The MOU has been extended to February 2010. TPAO is negotiating terms of development under that bilateral MOU.

Size of the contract in terms of investment requirement and planned production: The MOU calls for TPAO to develop South

Pars blocks with 35 bcm of capacity. To date, no investment has been made. If the project were to go forward, TPAO estimates the cost at USD 7-8 billion.

Contract award date: no contract has been awarded.

Silliman

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